



**UMZIMKHULU LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

GENERAL INFORMATION

Legal form of entity	Local municipality
Members of the Council	
Mayor	Cllr M B Mpabanga
Deputy mayor	Cllr S Nkala
Speaker	Cllr S S Thobela
Chief whip	Cllr X Tshazi
Member of the executive committee	Cllr B Cira
Member of the executive committee	Cllr M Swaartbooi
Member of the executive committee	Cllr S Ngcongo
Member of the executive committee	Cllr B J Lukakayi
Member of the executive committee	Cllr M Dhazibe
Municipal Manager (MM)	Mr Z S Sikhosana
Chief Finance Officer (CFO)	Mr Z Cezu
Grading of local authority	3
Attorneys	Matthew Francis
Auditors	Auditor General of South Africa
Bankers	First National Bank
Registered office	169 Main Street Umzimkhulu 3297
Physical address	169 Main Street Umzimkhulu 3297
Postal address	P O Box 53 Umzimkhulu 3297
Telephone number	039 259 5000
Fax number	039 259 0427
E-mail address	info@umzimkhululm.gov.za

UMZIMKHULU LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

INDEX

The reports and statements set out below comprise the annual financial statements presented to the council:

Index	Page
Approval of Annual Financial Statements	3
Statement of Financial Position	4
Statement of Financial Performance	5
Statement of Changes in Net Assets	6
Cash Flow Statement	7
Statement of Comparison of Budget and Actual Amounts	8 - 11
Summary of Significant Accounting Policies	12 - 28
Notes to the Annual Financial Statements	29 - 59
The following supplementary information does not form part of the annual financial statements and is unaudited:	
Appendix A: Schedule of External loans	59
Appendix B: Analysis of Property, Plant and Equipment	60
Appendix B(1): Actual versus Budget (Acquisition of Property, Plant and Equipment)	61
Appendix C: Segmental analysis of Property, Plant and Equipment	62
Appendix D: Segmental Statement of Financial Performance	63
Appendix E: Actual versus Budget (Revenue and Expenditure)	64
Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	65
Appendix G: Budgeted Cash Flows	66

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 59 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 24 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Mr Z S Sikhosana
Municipal Manager

30 August 2013

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

Figures in Rand	Notes	2013	2012
ASSETS			
Current Assets			
Cash and cash equivalents	2	42 549 958	37 890 735
Receivables from exchange transactions	3	24 673	34 128
Other receivable from non-exchange	4	10 616 532	1 017 766
Receivables from non exchange transactions	5	4 149 229	5 316 178
VAT receivable	6	2 545 697	1 957 289
		59 886 089	46 216 096
Non-Current Assets			
Investment property	7	28 884 329	28 914 496
Property, plant and equipment	8	364 754 594	311 583 652
Intangible assets	9	270 879	119 910
Heritage assets	10	2 947 824	2 947 824
		396 857 626	343 565 882
Total Assets		456 743 715	389 781 978
LIABILITIES			
Current Liabilities			
Payables from exchange transactions	11	12 159 983	7 604 584
Unspent conditional grants and receipts	12	10 856 624	6 704 612
Provisions	13	88 321	38 676
		23 104 928	14 347 872
Non-Current Liabilities			
Provisions	13	1 954 969	1 698 281
Total Liabilities		25 059 897	16 046 153
Net Assets		431 683 818	373 735 825
NET ASSETS			
Reserves			
Revaluation reserve	14	72 260 994	92 857 565
Housing operating account	15	21 466 294	29 051 938
Accumulated surplus	16	337 956 530	251 826 322
Total Net Assets		431 683 818	373 735 825

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

STATEMENT OF FINANCIAL PERFORMANCE

FIGURES IN RAND	NOTES	2013	2012
Revenue			
Government grants & subsidies	17	183 386 236	149 110 101
Interest received (trading)		408 420	542 928
Interest earned - investment	18	2 295 509	2 666 967
Motor vehicle licences		807 059	639 842
Other revenue	19	1 413 450	1 089 824
Property rates	20	5 904 585	4 005 670
Public contributions and donations - container bins		-	449 710
Rental of facilities and equipment	21	877 685	593 033
Service charges	22	1 336 651	1 148 332
Total revenue		196 429 595	160 246 407
Expenditure			
Employee related costs	23	(32 554 509)	(27 343 283)
Remuneration of councillors	24	(11 904 855)	(10 577 834)
Debt impairment	25	(2 964 669)	(4 333 531)
Depreciation and amortisation	26	(31 948 986)	(30 700 904)
Finance costs	27	(308 919)	(124 407)
Repairs and maintenance		(4 319 024)	(4 670 927)
General expenses	28	(44 984 550)	(52 563 705)
Total expenditure		(128 985 512)	(130 314 591)
Operating surplus	29	67 444 083	29 931 816
Loss on disposal of assets and liabilities		(1 116 955)	(37 253)
Surplus for the year		66 327 128	29 894 563

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

STATEMENT OF CHANGES IN NET ASSETS

	Revaluation reserve	Housing operating account	Total reserves	Accumulated surplus	Total net assets
Figures in Rand					
Balance at 01 July 2011	107 340 500	28 032 032	135 372 532	159 290 996	294 663 528
Changes in net assets					
Surplus for the year	-	-	-	29 894 563	29 894 563
Interest on housing operating account	-	1 019 906	1 019 906	(1 019 906)	-
Offsetting of depreciation	(22 350 571)	-	(22 350 571)	22 350 571	-
Reversal of UIF company contribution	-	-	-	53 405	53 405
Total changes	(22 350 571)	1 019 906	(21 330 665)	51 278 633	29 947 968
Opening balance as previously reported at 30 June 2012	84 989 929	29 051 938	114 041 867	210 569 629	324 611 496
Adjustments					
Correction of errors	7 867 636	-	7 867 636	41 256 694	49 124 330
Restated balance at 01 July 2012	92 857 565	29 051 938	121 909 503	251 826 323	373 735 826
Changes in net assets					
Surplus for the year	-	-	-	66 327 128	66 327 128
Offset depreciation	(20 596 572)	-	(20 596 572)	20 596 572	-
Transfer to human settlement grant	-	(8 379 137)	(8 379 137)	-	(8 379 137)
Interest on housing operating account transferred to accumulated surplus	-	793 493	793 493	(793 493)	-
Total changes	(20 596 572)	(7 585 644)	(28 182 216)	86 130 207	57 947 991
Balance at 30 June 2013	72 260 994	21 466 294	93 727 288	337 956 530	431 683 818
NOTES	14	15		16	

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

CASH FLOW STATEMENT

FIGURES IN RAND	NOTES	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Receipts from ratepayers and other services		10 742 451	8 840 920
Government grants and subsidies		183 386 236	148 808 469
Interest income		2 295 509	2 666 967
		<u>196 424 196</u>	<u>160 316 356</u>
Payments			
Employee costs		(44 459 364)	(37 921 117)
Suppliers and other payments		(62 084 222)	(8 415 806)
		<u>(106 543 586)</u>	<u>(46 336 923)</u>
Net cash flows from operating activities	31	89 880 610	113 979 433
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	8	(84 927 365)	(84 136 068)
Proceeds from sale of property, plant and equipment	8	19 343	21 051
Purchase of investment property	7	-	(24 447 840)
Purchase of other intangible assets	9	(313 365)	(12 513)
		<u>(85 221 387)</u>	<u>(108 575 370)</u>
Net cash flows from investing activities		(85 221 387)	(108 575 370)
Net increase/(decrease) in cash and cash equivalents		4 659 223	5 404 063
Cash and cash equivalents at the beginning of the year		37 890 735	32 486 672
Cash and cash equivalents at the end of the year	2	42 549 958	37 890 735

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	300 000	500 000	800 000	1 336 651	536 651	1
Rental of facilities and equipment	800 000	(85 000)	715 000	877 685	162 685	2
Interest received (trading)	250 000	50 000	300 000	408 420	108 420	3
Other revenue	14 880 000	241 087	15 121 087	1 413 450	(13 707 637)	4
Interest received - investment	1 500 000	500 000	2 000 000	2 295 509	295 509	5
Total revenue from exchange transactions	17 730 000	1 206 087	18 936 087	6 331 715	(12 604 372)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	6 000 000	(1 126 087)	4 873 913	5 904 585	1 030 672	6
Government grants & subsidies	147 534 997	37 221 473	184 756 470	183 386 236	(1 370 234)	7
Transfer revenue						
Motor Vehicle and Licence	550 000	200 000	750 000	807 059	57 059	8
Total revenue from non-exchange transactions	154 084 997	36 295 386	190 380 383	190 097 880	(282 503)	
Total revenue	171 814 997	37 501 473	209 316 470	196 429 595	(12 886 875)	
Expenditure						
Employee related costs	(30 884 815)	(3 883 196)	(34 768 011)	(32 554 509)	2 213 502	9
Remuneration of councillors	(10 983 254)	-	(10 983 254)	(11 904 855)	(921 601)	10
Depreciation and amortisation	(3 409 755)	(1 425 766)	(4 835 521)	(31 948 986)	(27 113 465)	11
Finance costs	(61 173)	-	(61 173)	(308 919)	(247 746)	12
Debt impairment	-	-	-	(2 964 669)	(2 964 669)	13
Repairs and maintenance	(17 285 000)	11 620 212	(5 664 788)	(4 319 024)	1 345 764	14
General Expenses	(52 972 760)	7 016 264	(45 956 496)	(44 984 550)	971 946	15
Total expenditure	(115 596 757)	13 327 514	(102 269 243)	(128 985 512)	(26 716 269)	
Operating surplus	56 218 240	50 828 987	107 047 227	67 444 083	(39 603 144)	
Loss on disposal of assets and liabilities	-	-	-	(1 116 955)	(1 116 955)	
Surplus before taxation	56 218 240	50 828 987	107 047 227	66 327 128	(40 720 099)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	56 218 240	50 828 987	107 047 227	66 327 128	(40 720 099)	

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Receivables from exchange transactions	-	-	-	24 673	24 673	1
Other receivable from non-exchange	-	-	-	10 616 532	10 616 532	2
VAT receivable	2 114 000	-	2 114 000	2 545 697	431 697	3
Consumer debtors	7 946 000	-	7 946 000	4 149 229	(3 796 771)	4
Cash and cash equivalents	57 057 000	-	57 057 000	42 549 958	(14 507 042)	5
	67 117 000	-	67 117 000	59 886 089	(7 230 911)	
Non-Current Assets						
Investment property	4 762 134	-	4 762 134	28 884 329	24 122 195	6
Property, plant and equipment	287 855 000	-	287 855 000	364 754 594	76 899 594	7
Intangible assets	206 619	-	206 619	270 879	64 260	8
Heritage assets	292 823 753	-	292 823 753	2 947 824	(289 875 929)	9
	585 647 506	-	585 647 506	396 857 626	(188 789 880)	
Total Assets	652 764 506	-	652 764 506	456 743 715	(196 020 791)	
Liabilities						
Current Liabilities						
Payables from exchange transactions	11 316 000	-	11 316 000	12 159 984	843 984	10
Unspent conditional grants and receipts	-	-	-	10 856 624	10 856 624	11
Provisions	-	-	-	88 321	88 321	12
	11 316 000	-	11 316 000	23 104 929	11 788 929	
Non-Current Liabilities						
Provisions	1 223 000	-	1 223 000	1 954 969	731 969	13
Total Liabilities	12 539 000	-	12 539 000	25 059 898	12 520 898	
Net Assets	640 225 506	-	640 225 506	431 683 817	(208 541 689)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Revaluation reserve	186 538 000	-	186 538 000	72 260 994	(114 277 006)	14
Housing operating account	160 864 000	-	160 864 000	21 466 294	(139 397 706)	15
Accumulated surplus	292 823 506	-	292 823 506	337 956 529	45 133 023	16
Total Net Assets	640 225 506	-	640 225 506	431 683 817	(208 541 689)	

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Cash Flow Statement

Cash flows from operating activities

Receipts

Sale of goods and services	22 530 000	-	22 530 000	10 742 451	(11 787 549)	1
Grants	147 535 000	30 800 000	178 335 000	183 386 236	5 051 236	2
Interest income	1 750 000	-	1 750 000	2 295 509	545 509	3
	171 815 000	30 800 000	202 615 000	196 424 196	(6 190 804)	

Payments

Employee costs	(41 868 069)	(3 883 196)	(45 751 265)	(44 459 364)	1 291 901	4
Suppliers	(73 728 931)	4 526 196	(69 202 735)	(62 084 222)	7 118 513	5
	(115 597 000)	643 000	(114 954 000)	(106 543 586)	8 410 414	

Net cash flows from operating activities

56 218 000	31 443 000	87 661 000	89 880 610	2 219 610	
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Cash flows from investing activities

Purchase of property, plant and equipment	(56 218 000)	(38 148 123)	(94 366 123)	(84 927 365)	9 438 758	6
Proceeds from sale of property, plant and equipment	-	-	-	19 343	19 343	
Purchase of other intangible assets	-	-	-	(313 365)	(313 365)	7

Net cash flows from investing activities

(56 218 000)	(38 148 123)	(94 366 123)	(85 221 387)	9 144 736	
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Net increase/(decrease) in cash and cash equivalents

-	(6 705 123)	(6 705 123)	4 659 223	11 364 346	
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Cash and cash equivalents at the beginning of the year

-	9 211 000	9 211 000	37 890 735	28 679 735	
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Cash and cash equivalents at the end of the year

-	2 505 877	2 505 877	42 549 958	40 044 081	
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UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Variance Explanation

Statement Of Financial Performance

1. New contract with St.Margaret Hospital for refuse removal collection and skip waste collection
2. New contracts with Titayoyo and Mpume Technologies, Sizonqona Co orp, Dreamworks and Transido tenants
3. Interest charged on National Public Works and other Debtors
4. The difference is VAT received from SARS, which directly receipted to Debtors in the Balance Sheet
5. Result of improved cash-flow therefore more interest was earned than anticipated during the year
6. New Properties have been billed.(The Rhino Complex). The Adjustment was done for prior year
7. More allocations received, than anticipated, High spending on grant funded projects
8. More car registrations than anticipated
9. Savings owing to late-filling of vacancies during the year. Non payment of Performance bonuses
10. During budget preparation the determination of councillors was not yet finalised
11. Revaluation of assets resulted in increases in the assets of the municipality and depreciation as well.
12. Increased service cost on Landfill Site closure and Provision for long service award
13. Review of contribution to provision for bad debts for the year
14. Some of the Repairs and Maintainance were put on halt since the process of purchasing Plant machinery has began where the municipality will repair and Maintain its roads
15. Savings realised on Adminstrative and operating

Statement Of Financial Position

1. Receipts from Auction of Municipal Assets not yet received
2. INEP/MIG/Small Town Development accruing at year end not anticipated
3. More expenditure than anticipated in the month of June 2013 which improved input tax
4. Writing off Reitvlei Debt
5. High spending on the Infrastructure Development projects in the last quarter of 2013
6. Commercial land capitalised in the Asset Register
7. Additional allocations for Small Town Projects and Neighbourhood Projects gazetted during adjustment budget
8. Upgrading of Financial Systems to 5i
9. No acquisition was anticipated during the year
10. High spending on the Infrastructure development projects in the last quarter of 2013 that increased Retention Creditors
11. The projects R2129 and R2130 encountered underground water seepage which delayed the construction of storm water drainage pipes. The project is funded by Neighbourhood Grant
12. Long Term Service award provision approved by the Council as part of Employee Retention Strategy
13. Increase cost of Landfill site rehabilitation.
14. Transfer of depreciation amount of re-valued assets to accumulated surplus in terms GRAP 17.
15. Housing Projects plans still in progress at year end
16. Increased of Infrastructure Developments funded by National and Provincial allocations

Statement Of Cash Flow

1. SARS funds receipted on Balance Sheet
2. More allocations received, than anticipated, High spending on grant funded projects
3. Result of improved cash therefore more interest was earned than anticipated during the year
4. Savings owing to late-filling of vacancies during the year. Non payment of Performance bonuses
5. Savings realised on Adminstrative and operating
6. Ongoing Infrastructure Development projects
7. Upgrading of Fincial System

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. ACCOUNTING POLICIES

1.1 BASIS OF PRESENTATION

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP), as approved by the Minister of Finance, including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.1.1 CHANGES IN ACCOUNTING POLICY AND COMPARABILITY

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

For the years ended 30 June 2012 and 30 June 2013 the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only if the following instances:

- (a) is required by a Standard of GRAP; or
- (b) results in the annual financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flow.

The Minister of Finance has announced that the application of GRAP 21, GRAP 23, GRAP 24, GRAP 26, GRAP 103 and GRAP 104 will be effective for the period starting 1 April 2012. The municipality had already early adopted GRAP 104 in the prior year. Thus for the 2012/2013 year the municipality adopts GRAP 21, GRAP 24, GRAP 26 and GRAP 103.

1.2 PRESENTATION OF CURRENCY

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.3 GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1.4 COMPARATIVE INFORMATION

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to these financial statements and forms part of the financial statements.

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.5 CRITICAL JUDGEMENTS, ESTIMATION AND ASSUMPTIONS

In the application of the municipality's accounting policies, which are described below, management is required to make judgement, estimation and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that management have made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the annual financial statements.

1.5.1 REVENUE RECOGNITION

Accounting policy 1.17.1 on *Revenue from Exchange Transactions* and accounting policy 1.17.2 on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: *Revenue from Exchange Transactions* and GRAP 23: *Revenue from non-exchange transactions*. In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.5.2 IMPAIRMENT OF FINANCIAL ASSETS

Accounting Policy 1.19 on *Impairment of Financial Assets* describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: *Financial Instruments* and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

1.5.3 USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND INVESTMENT PROPERTY

As described in Accounting Policies 1.7, 1.8 and 1.9 the municipality depreciates/ amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

1.5.4 BUDGET INFORMATION

Deviations between budget and actual amounts are regarded as material differences when a 5% deviation exists. All material differences are explained in an annexure separate from these annual financial statements.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.6 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP Standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 - Segment Reporting - issued March 2005

GRAP 20 - Related Party and Disclosure (Revised)

GRAP 25 - Employee Benefits - issued December 2009

GRAP 105 - Transfer of Function Between Entities Under Common Control - issued November 2010

GRAP 106 - Transfer of Function Between Entities Not Under Common Control - issued November 2010

GRAP 107 - Mergers - issued November 2010

The ASB Directive 5 paragraph 29 sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy, as set out in the standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued, but is not yet in effect, the municipality may select to apply the principles established in that standard in developing an appropriate accounting policy dealing with a particular section or event before applying paragraph 12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The Municipality applied the principles established in the following Standards of GRAP that have been issued, but is not yet in effect, in developing an appropriate accounting policies dealing with the following transactions, but have not early adopted these Standards:

GRAP 20 - Related Party Disclosures (Revised)

GRAP 25 - Employee Benefits - issued December 2009

Management has considered all of the above-mentioned GRAP Standards issued but not yet effective and anticipates that the adoption of these Standards will not have a significant impact on the financial position, financial performance, or cash flow of the municipality.

1.7 PROPERTY, PLANT AND EQUIPMENT

1.7.1 INITIAL RECOGNITION

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PROPERTY, PLANT AND EQUIPMENT (continued)

1.7.2 SUBSEQUENT MEASUREMENT - COST AND REVALUATION MODEL

Subsequent to initial recognition, items of property, plant and equipment such as Other fixed assets are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

All other items of property, plant and equipment such as Infrastructure, Community and Buildings are carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

The municipality shall revalue all its assets that are under revaluation model every 5 years.

1.7.3 DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Item	Average useful life
Land	Indefinite
Buildings	30-50 years
Infrastructure	
• Roads and paving	10-30 years
• Pedestrian malls	30 years
• Dam	30 years
Community	
• Buildings	30-50 years
• Recreational facilities	20-30 years
• Security	5-15 years
Other property, plant and equipment	
• Specialist vehicles	10-20 years
• Other vehicles	5-15 years
• Office equipment	3-12 years
• Furniture and fittings	7-12 years
• Landfill site	15 years

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PROPERTY, PLANT AND EQUIPMENT (continued)

1.7.4 WORK IN PROGRESS

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

1.7.5 LAND

Land is not depreciated as it is deemed to have an indefinite useful life.

1.7.6 INFRASTRUCTURE ASSETS

Infrastructure assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

1.7.7 DERECOGNITION

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.8 INTANGIBLE ASSETS

1.8.1 INITIAL RECOGNITION

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred. Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

1.8.2 SUBSEQUENT MEASUREMENT - COST MODEL

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

1.8.3 AMORTISATION AND IMPAIRMENT

Amortisation is charged so as to write off the cost of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Item	Useful life
Computer software, other	3-5 years

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTANGIBLE ASSETS (continued)

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

1.8.4 DERECOGNITION

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.9 INVESTMENT PROPERTY

1.9.1 INITIAL RECOGNITION

Investment property includes property (land or a building, or part of a building, or both land or buildings held under an operating lease held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

1.9.2 SUBSEQUENT MEASUREMENT - COST MODEL

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Investment property	30-50 years
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1.9.3 DERECOGNITION

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

1.10 HERITAGE ASSETS

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

1.10.1 RECOGNITION

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

HERITAGE ASSETS (continued)

1.10.2 SUBSEQUENT MEASUREMENT

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Heritage assets are not depreciated.

1.10.3 DERECOGNITION

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.11 FINANCIAL INSTRUMENTS

1.11.1 CLASSIFICATION

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial asset at amortised cost
- Financial assets at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset
- Financial asset at amortised cost, using the effective interest rate method less a provision for impairment.
- Financial liabilities measured at fair value or
- Financial liabilities measured at amortised cost
- Financial liabilities measured at cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

GRAP 104: Financial Instrument – No material impact is expected.

1.11.2 INITIAL RECOGNITION AND MEASUREMENT

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

1.11.3 SUBSEQUENT MEASUREMENT

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost. The subsequent measurement of financial assets and liabilities depends on this categorisation.

Net gains or losses on the financial instruments at fair value through surplus or deficit dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS (continued)

1.11.4 RECEIVABLES FROM EXCHANGE TRANSACTIONS

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

1.11.5 PAYABLES FROM EXCHANGE TRANSACTIONS

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

1.11.6 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.11.7 BANK OVERDRAFT AND BORROWINGS

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS (continued)

1.11.8 DERECOGNITION

1.11.8.1 FINANCIAL ASSETS

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

1.11.8.2 FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.11.9 IMPAIRMENT OF FINANCIAL ASSETS

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.12 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.13 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.14 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.15 PROVISIONS AND CONTINGENCIES

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 32.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.16 LEASES

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

1.16.1 OPERATING LEASES - LESSOR

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

1.16.2 OPERATING LEASES - LESSEE

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.17 REVENUE

1.17.1 REVENUE FROM EXCHANGE TRANSACTIONS

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered, the value of which approximates the consideration received or receivable.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUE (continued)

1.17.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

GRAP 23: Revenue from Non-exchange Transactions –No material impact is expected. The standard contains additional guidance on conditions, restrictions and stipulations which may result in revenue being recognised.

1.17.3 GRANTS, TRANSFERS AND DONATIONS

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

1.18 BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.19 IMPAIRMENT OF ASSETS

The entity classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

1.19.1 IMPAIRMENT OF CASH GENERATING ASSETS

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

GRAP 26: Impairment of cash-generating assets - Cash-generating assets are those assets held by an group with the primary objective of generating a commercial return. An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. The municipality estimated and found no material impact in the applicability of the standard.

1.19.2 IMPAIRMENT OF NON-CASH GENERATING ASSETS

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

IMPAIRMENT OF ASSETS (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

An impairment loss is recognised for non cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

GRAP 21: Impairment of Non-Cash generating assets – No material impact is expected. The requirements of GRAP are similar to the requirement of IAS 36 and IPSAS 2 Impairment of non-cash generating assets.

1.20 VALUE ADDED TAX

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec15(2)(a) of the Value-Added Tax Act No 89 of 1991.

1.21 EMPLOYEE BENEFITS

1.21.1 SHORT-TERM EMPLOYEE BENEFITS

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected costs of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

1.21.2 RETIREMENT BENEFITS

Whilst employees and councillors are employed by the municipality, the municipality contributes to their medical aid and pension funds. On termination, resignation or retirement of employees and councillors the municipality no longer contributes to the medical aid and pension funds on their behalf and thus there are no post - employment benefits.

1.21.3 LONG SERVICE AWARDS

Provision for long services awards represents the present value of the estimated future cash outflows to be made by the municipality resulting from employee services provided up to Statement of Financial Position date. The provision comprises of amounts that the Municipality has a present obligation to pay resulting for employees services provided up to Statement of Financial Position date. The Municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities.

The leave may wholly or partially converted into cash and or sick leave on the date on which the employees qualifies therefore or at any stages. On termination of service of an employee with ten (10) or more year's service, for reason of retirement, death, medical incapacity or retrenchment, leave shall be paid out to an employee on a pro rata basis. Any special leave accrued in this manner will become payable upon termination for whatever reason and not form part of vacation leave credit.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.22 HOUSING OPERATING ACCOUNT

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.23 RELATED PARTIES

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.24 SEGMENTAL INFORMATION

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.25 BUDGET INFORMATION

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2012/07/01 to 2013/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts as disclosed in note 43.

GRAP24: Budget Information - It is unlikely that the standard will have a material impact on the municipality's annual financial statements. The municipality currently has one heritage asset.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FIGURES IN RAND	2013	2012
2. CASH AND CASH EQUIVALENTS		
Cash and cash equivalents consist of:		
Cash on hand (Petty cash)	28	-
Bank balances	5 328 645	2 503 006
Short-term deposits	37 221 285	35 387 729
	42 549 958	37 890 735

The municipality's primary bank account is a public sector cheque account with First National Bank. The account is held at the Ixopo branch and the account number is 5255 573 0913.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
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2. CASH AND CASH EQUIVALENTS (continued)

Primary bank account details

Bank name/account type and number	Bank statement balances		Cash book balances	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
First National Bank - Cheque account - 5255 573 0913	5 328 645	2 503 006	5 328 645	2 503 006
Clydesdale Housing - First National Bank - 62331947418 - Business Call Account	8 811 835	1 242 283	8 811 835	12 424 283
Ext 5&6 Housing Project - First National Bank - 62023990907 - Business Call Account	1 213 055	12 588 028	1 213 055	1 588 028
Ibisi Housing Projects - First National Bank - 62331935950 - Business Call Account	779 379	1 040 277	779 379	1 040 277
MIG Grant - First National Bank - 62123938055 - Business Call Account	32 241	1 000	32 241	1 000
MSIG - First National Bank - 62127055045 - Business Call Account	1 516	1 294	1 516	1 294
Neighbourhood Grant - First National Bank - 62174352525 - Business Call Account	4 726 014	5 195 667	4 726 014	5 195 667
Electrification - First National Bank - 62174363508 - Business Call Account	424 188	1 447 270	424 188	1 447 270
Riverside Housing Project Phase 1 - First National Bank - 62023990593 - Business Call Account	830 689	656 649	656 649	830 689
Riverside Phase 2 - First National Bank - 62331950495 - Business Call Account	3 069 048	4 260 317	3 069 048	4 260 317
Reitvl/City Surv Account - First National Bank - 62123938104 - Business Call Account	761 966	699 951	761 966	699 951
Rural Housing Project - First National Bank - 62331949422 - Business Call Account	4 210 166	6 004 425	4 210 166	6 004 425
32 Day Ex Main Account - First National Bank - 62132172355 - Business Call Account	4 080 842	1 664 598	4 080 842	1 664 598

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013		2012	
2. CASH AND CASH EQUIVALENTS (continued)				
Sport Facility Grant - First National Bank - 62125140129 - Business Call Account	1 099	230 120	1 099	230 120
Human Settlement operating Small Town	8 446 440	-	8 446 440	-
	6 848	-	6 848	-
Total	42 723 971	37 534 885	42 549 931	37 890 925
3. RECEIVABLES FROM EXCHANGE TRANSACTIONS				
Lease debtor			5 065	-
Other receivables			199 912	34 128
Provision for other receivables			(180 304)	-
			24 673	34 128
4. OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS				
MIG Expenditure			10 616 532	1 017 096
Payroll Debtors			-	670
			10 616 532	1 017 766
5. RECEIVABLES FROM NON EXCHANGE TRANSACTIONS				
Gross balances				
Rates and refuse			10 547 740	12 431 888
Less: Allowance for impairment				
Rates and refuse			(6 398 511)	(7 115 710)
Net balance				
Rates and refuse			4 149 229	5 316 178
Rates and refuse				
Current (0 -30 days)			699 724	503 353
31 - 60 days			224 602	445 122
61 - 90 days			431 997	381 941
91 - 120 days			232 768	409 244
121 - 365 days			8 958 649	10 692 228
			10 547 740	12 431 888

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
5. RECEIVABLES FROM NON EXCHANGE TRANSACTIONS (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	136 860	222 107
31 - 60 days	134 618	205 410
61 - 90 days	124 904	199 982
91 - 120 days	123 955	207 609
121 - 365 days	4 738 491	6 661 511
	5 258 828	7 496 619
Industrial/commercial		
Current (0 -30 days)	282 782	128 715
31 - 60 days	117 368	98 239
61 - 90 days	94 676	97 936
91 - 120 days	69 642	119 523
121 - 365 days	3 415 580	2 080 367
	3 980 048	2 524 780
National and provincial government		
Current (0 -30 days)	8 755	178 948
31 - 60 days	7 301	161 848
61 - 90 days	1 469	80 592
91 - 120 days	(4 127)	78 791
121 - 365 days	1 161 064	1 910 310
	1 174 462	2 410 489
Total		
Current (0 -30 days)	437 401	529 769
31 - 60 days	263 607	465 497
61 - 90 days	225 795	378 510
91 - 120 days	201 010	405 924
121 - 365 days	9 419 927	10 652 188
	10 547 740	12 431 888
Less: Provision for impairment	(6 398 511)	(7 115 710)
	4 149 229	5 316 178
Reconciliation of allowance for impairment		
Balance at beginning of the year	(7 115 710)	(11 658 533)
Removing write offs	3 501 564	7 446 894
Increase bad debt provision	(2 784 365)	(2 904 071)
	(6 398 511)	(7 115 710)
6. VAT RECEIVABLE		
VAT (SARS)	2 545 697	1 957 289

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
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7. INVESTMENT PROPERTY

	2013			2012		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	29 366 992	(482 663)	28 884 329	29 366 992	(452 496)	28 914 496

Reconciliation of investment property - 2013

	Opening balance	Depreciation	Total
Investment property	28 914 496	(30 167)	28 884 329

Reconciliation of investment property - 2012

	Opening balance	Additions - refer to note 36	Depreciation	Total
Investment property	4 496 822	24 447 840	(30 166)	28 914 496

7.1 Rental Income from Investment Property

Direct Income	877 685	593 033
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7.2 Details of property

Land - Shopping Complex

Erven 229, 735 and 736

Duration : 50 years

Termination date : 18 June 2046

Rental income is R240 000 per annum. The rental shall escalate by an amount equivalent to the CPI index every year, but this escalation shall never be less than 4 % nor greater than 8 % per annum.

- Purchase price: 1 July 1997

- Land

4 014 160	4 014 160
24 447 840	24 447 840
28 462 000	28 462 000

Buildings - Hotel and House

Erven 231 and 232

Duration : 50 years

Termination date : 30 November 2061

Rental income is R120 000 per annum. The rental shall escalate by an amount equivalent to the CPI index every year

- Purchase price: 1 December 2008

- Accumulated Depreciation

904 992	904 992
(482 663)	(452 496)
422 329	452 496

Total Land and Buildings	28 884 329	28 914 496
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UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

2013

2012

8. PROPERTY, PLANT AND EQUIPMENT

	2013			2012		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	25 785 000	-	25 785 000	25 785 000	-	25 785 000
Buildings	30 810 038	(4 741 646)	26 068 392	55 814 227	(5 328 912)	50 485 315
Infrastructure assets	262 777 793	(99 564 982)	163 212 811	214 493 534	(71 780 765)	142 712 769
Community assets	49 751 050	(4 753 685)	44 997 365	20 033 528	(1 553 738)	18 479 790
Other fixed assets	7 315 218	(4 014 265)	3 300 953	5 789 003	(3 351 889)	2 437 114
Capital work in progress	101 390 073	-	101 390 073	71 683 664	-	71 683 664
Total	477 829 172	(113 074 578)	364 754 594	393 598 956	(82 015 304)	311 583 652

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Other changes, movements	Depreciation	Total
Land	25 785 000	-	-	-	25 785 000
Buildings	50 485 315	-	(22 516 842)	(1 979 273)	26 068 392
Infrastructure assets	142 712 769	48 284 259	79 192	(27 784 217)	163 212 811
Community assets	18 479 790	5 141 411	22 437 650	(1 061 486)	44 997 365
Other fixed assets	2 437 114	1 795 286	-	(931 447)	3 300 953
Capital work in progress	71 683 664	29 706 409	-	-	101 390 073
	311 583 652	84 927 365	-	(31 756 423)	364 754 594

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Total
Land	611 000	25 174 000	-	-	-	25 785 000
Buildings	51 313 900	2 181 566	-	(1 140 351)	(1 869 800)	50 485 315
Infrastructure assets	139 493 733	28 735 496	-	1 658 648	(27 175 108)	142 712 769
Community assets	6 329 979	12 909 574	-	-	(759 763)	18 479 790
Other fixed assets	2 324 825	981 975	(54 997)	(33 025)	(781 664)	2 437 114
Capital work in progress	58 015 485	13 668 179	-	-	-	71 683 664
	258 088 922	83 650 790	(54 997)	485 272	(30 586 335)	311 583 652

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
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8. PROPERTY, PLANT AND EQUIPMENT (continued)

Revaluations

The effective date of the revaluations was 30 June 2009. Revaluations were performed by an independent valuer, the Aurecon Group and they are not connected to the municipality.

The Infrastructure assets, Community assets and Land and Buildings have been valued at depreciated replacement cost (DRC).

The current replacement cost which is used to calculate the DRC has two inputs: the size of the asset and the unit cost of the asset, which is associated to the asset type. Unit cost models developed by the valuer were used to determine the unit cost for each asset type using statistical analysis. These are used to determine the values of the assessed assets. This method of valuation by unit costs is consistent with the approach advocated by the South African Local Asset Management Guidelines.

The municipal buildings were evaluated using a 19 point per floor visual condition assessment methodology and current and depreciated replacement values determined using predetermined models incorporating deterioration models.

Assumption 1: The construction year is estimated using sources in the following order of precedence: available technical records, interviewing of operations staff, comparison with adjacent infrastructure. When the date of acquisition is not known and the construction year is estimated, the acquisition date is assumed to be on the 1st day of January in the year of construction

Assumption 2: The consumption of benefits of infrastructure assets are predominantly uniform over the life of the asset. The depreciation is therefore assumed to be straight line for all infrastructure assets except buildings (which uses a parabolic curve)

Assumption 3: The residual value of all civil infrastructure assets is negligible as there is no open market for the materials used in civil infrastructure and the realisable value is very small. The scrap value of mechanical and electrical plant is also negligible.

9. INTANGIBLE ASSETS

	2013			2012		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 028 958	(758 079)	270 879	715 593	(595 683)	119 910

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software	119 910	313 365	(162 396)	270 879

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	195 108	12 513	(3 307)	(84 404)	119 910

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
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10. HERITAGE ASSETS

	2013			2012		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Memorial hall	2 947 824	-	2 947 824	2 947 824	-	2 947 824

Reconciliation of heritage assets 2013

	Opening balance	Total
Memorial hall	2 947 824	2 947 824

Reconciliation of heritage assets 2012

	Opening balance	Total
Memorial hall	2 947 824	2 947 824

11. PAYABLES FROM EXCHANGE TRANSACTIONS

Income Received in Advance	134 402	145 195
Workmen's compensation	-	36 008
Accrued leave pay	1 890 964	1 651 568
Accrued expenses	1 071 075	887 851
Deposits received	20 530	12 934
Retentions	9 032 277	4 866 043
Operating lease creditor	10 735	4 985
	12 159 983	7 604 584

12. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Unspent conditional grants and receipts comprises of:

Human Settlement Grant	8 446 440	-
Expanded Public Works Programme Grant	341 472	-
Neighbourhood Grant	2 068 712	4 733 934
Electrification Grant	-	1 442 417
Small Town Development	-	528 261
	10 856 624	6 704 612

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
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13. PROVISIONS

Reconciliation of provisions - 2013

	Opening Balance	Interest	Total
Landfill site provision	1 279 621	187 212	1 466 833
Long service awards provision	457 336	119 121	576 457
	1 736 957	306 333	2 043 290

Reconciliation of provisions - 2012

	Opening Balance	Additions	Interest	Total
Landfill site provision	1 155 214	-	124 407	1 279 621
Long service awards provision	-	457 336	-	457 336
	1 155 214	457 336	124 407	1 736 957
Non-current liabilities			1 954 969	1 698 281
Current liabilities			88 321	38 676
			2 043 290	1 736 957

Landfill site

The landfill site provision relates to the costs of rehabilitating the landfill site when it reaches the end of its useful life in 2015 and has been discounted to reflect its present value. The discounting rate used is 6,06% (2012 : 5,5%).

Long service awards

Employees who achieve 10 year's service will be granted 10 days paid leave. Employees who achieve 15 years' service will be granted 20 days paid leave. Employees who achieve 20 years service will be granted 30 days paid leave. Employees who achieve 20/25/30/35/40 and 45 years service will be granted 30 days paid leave. The abovementioned leave is only applicable to those employees who achieve the stated years of services after the effective date of these conditions. The provision is an estimate of the long service award based on the monthly salaries rate at 30 June 2013 (30 June 2010). It has been assumed that the staff turnover will be insignificant based on historical data. A discount rate of 8.06% (2012:8.56%) was used on internal rate of return.

14. REVALUATION RESERVE

Opening balance	92 857 565	107 340 500
Offsetting of depreciation	(20 596 571)	(22 350 571)
Depreciation on original cost of assets (refer to note 36)	-	7 867 636
Closing balance	72 260 994	92 857 565

15. HOUSING OPERATING ACCOUNT

Opening balance	29 051 938	28 032 032
Transfer to human settlement grant	(8 379 137)	-
Interest received	793 493	1 019 906
Closing balance	21 466 294	29 051 938

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
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16. ACCUMULATED SURPLUS

Reconciliation of accumulated surplus - 2013

	Opening balance	Adjustments during the year	Surplus for the year	Total
	251 826 323	-	66 327 128	318 153 451
Offsetting of depreciation	-	20 596 572	-	20 596 572
Transfer of interest on housing operating account	-	(793 493)	-	(793 493)
	251 826 323	19 803 079	66 327 128	337 956 530

Reconciliation of accumulated surplus - 2012

	Opening balance	Adjustments during the year	Surplus for the year	Total
	158 271 090	-	29 894 562	188 165 652
Offsetting of depreciation	-	22 350 571	-	22 350 571
Prior year error - UIF accrued expense	-	53 405	-	53 405
Prior period Errors	-	41 256 694	-	41 256 694
	158 271 090	63 660 670	29 894 562	251 826 322

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
17. GOVERNMENT GRANTS AND SUBSIDIES		
Operating grants		
Equitable share	85 299 000	74 978 000
Government grant - operating revenue	5 410 660	4 676 091
	<u>90 709 660</u>	<u>79 654 091</u>
Capital grants		
Government grant - capital revenue	92 676 576	69 456 010
	<u>92 676 576</u>	<u>69 456 010</u>
	<u>183 386 236</u>	<u>149 110 101</u>

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Housing Grant

Current-year receipts	8 446 440	-
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Conditions still to be met - remain liabilities (see note 12).

The purpose of this grant is for infrastructure development.

Pound Grant

Balance unspent at beginning of year	-	1 000 000
Conditions met - transferred to revenue	-	(1 000 000)
	<u>-</u>	<u>-</u>

The purpose of this grant is for construction of Pound.

Sport Grant

Current-year receipts	150 000	150 000
Conditions met - transferred to revenue	(150 000)	(150 000)
	<u>-</u>	<u>-</u>

The purpose of this grant is for sport development.

Expanded Public Works Programme Grant

Current-year receipts	1 000 000	-
Conditions met - transferred to revenue	(658 528)	-
	<u>341 472</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 12).

The purpose of this grant is to reduce poverty and unemployment.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
-----------------	------	------

17. GOVERNMENT GRANTS AND SUBSIDIES (continued)

Municipal Infrastructure Grant Fund

Balance unspent at beginning of year	(1 017 096)	3 027 259
Current-year receipts	48 144 000	39 688 000
Conditions met - transferred to revenue	(56 073 084)	(43 732 355)
	(8 946 180)	(1 017 096)

Conditions still to be met - remain liabilities (see note 12).

The purpose of this grant is for infrastructure development.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None.

Municipal System Improvement Grant

Balance unspent at beginning of year	-	59
Current-year receipts	800 000	790 000
Conditions met - transferred to revenue	(800 000)	(790 059)
	-	-

The purpose of this grant is for building in house capacity and to stabilise institutional and government systems.

Finance Management Grant

Current-year receipts	1 500 000	1 450 000
Conditions met - transferred to revenue	(1 500 000)	(1 450 000)
	-	-

The purpose of this grant is to promote sound financial management.

Arts and Culture Grant

Current-year receipts	359 000	301 632
Conditions met - transferred to revenue	(359 000)	(301 632)
	-	-

The purpose of this grant is to fund salaries for Librarians.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
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17. GOVERNMENT GRANTS AND SUBSIDIES (continued)

Neighbourhood Grant

Balance unspent at beginning of year	4 733 934	1 402 614
Current-year receipts	13 353 000	16 570 000
Conditions met - transferred to revenue	(16 018 222)	(13 238 680)
	2 068 712	4 733 934

Conditions still to be met - remain liabilities (see note 12).

The purpose of this grant is for property development in townships, upgrading community facilities and attracting private sector funding and input.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Electrification Grant

Balance unspent at beginning of year	1 442 417	1 090 054
Current-year receipts	10 000 000	10 000 000
Conditions met - transferred to revenue	(11 731 528)	(9 647 637)
	(289 111)	1 442 417

Conditions still to be met - remain liabilities (see note 12).

The purpose of this grant is to address electrification backlog of permanently occupied residential dwellings and installation of bulk infrastructure and rehabilitation of electrification infrastructure.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None

Small Town Development

Balance unspent at beginning of year	528 261	-
Current-year receipts	8 870 000	4 350 000
Conditions met - transferred to revenue	(10 779 501)	(3 821 739)
	(1 381 240)	528 261

Conditions still to be met - remain liabilities (see note 12).

The purpose of this grant is for town development or upgrading.

Withheld/delayed grant : None.

Reason(s) for conditions not met : None.

Reason(s) for unspent grant : None

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
18. INTEREST EARNED - INVESTMENT		
Interest revenue		
Housing operating account	793 493	1 019 906
Bank	1 502 016	1 647 061
	2 295 509	2 666 967
19. OTHER REVENUE		
Advertising income	86 604	52 995
Building plans and servitudes	82 826	81 939
Business tariffs	15 600	5 858
Cemetery fees	6 643	11 608
Councillor allowance top up sub	-	5 426
Councillor cellphone reimbursement	-	88
Dumping fees	18 559	28 800
Hall fees	18 348	13 807
GIS income	540	-
Waste skips	14 040	-
Legal fee income	238 445	-
Zoning certificates	1 118	-
Proceeds on disposal of assets	19 343	-
PDA applications	877	1 316
Refund income	26 632	234 677
Repayment of debt	363 894	12 222
Sundry income	519 981	641 088
	1 413 450	1 089 824

Sundry income includes fees from tender documents.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
-----------------	------	------

20. PROPERTY RATES

Rates raised

Residential	1 858 146	799 267
Commercial	1 665 735	1 096 663
State	2 380 703	2 109 740
	5 904 584	4 005 670

Valuations

Residential	139 189 840	139 189 840
Commercial	86 631 000	86 631 000
State	270 512 000	270 512 000
Municipal	214 248 842	214 248 842
Small holdings and agriculture	531 762 000	531 762 000
Industrial	21 018 000	21 018 000
Place of worship	8 200 000	8 200 000
Institutional	3 000 000	3 000 000
Public service infrastructure	3 625 817	3 625 817
Special purposes	787 000	787 000
	1 278 974 499	1 278 974 499

Description	Number of properties	Tariffs
Residential	2 429	0.0085 & 0.0064 & 0.017
Commercial	42	0.013 & 0.022
State	180	0.0085
Municipal	1 413	0.0085 & 0.0064 & 0.017
Small holdings and agriculture	712	0.002 & 0.013
Industrial	5	0.013 & 0.022
Place of worship	8	0.0085
Institutional	1	0.0085
Public service infrastructure	206	0.002
Special purposes	3	0.0085
Total	4 999	

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Different rate randage are charged for the various categories of ratepayers. No additional rebates were granted to any categories of ratepayers except for any exemptions and compulsory phasing-in of certain rates as contained in Council's approved Rates Policy.

Old age pensioners were granted 100% subsidy as categorised as indigents and pensioners over 65 years were granted 25% rebate as per Council's approved Rates policy. State properties were granted a 10% rebate and Public Service infrastructures were granted 30% rebate as per Council's approved policy. Rates are levied monthly in 12 equal instalments payable on a monthly basis. Interest is charged at 15.5% on the outstanding balance of service charges.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
21. RENTAL OF FACILITIES AND EQUIPMENT		
Premises		
Facilities and equipment	877 685	593 033
22. SERVICE CHARGES		
Dumpsite	564 597	340 351
Refuse	772 054	807 981
	1 336 651	1 148 332

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
23. EMPLOYEE RELATED COSTS		
Basic	25 519 912	21 234 270
Bonus	978 258	1 279 512
Medical aid - municipal contributions	959 472	690 958
UIF	198 411	195 119
SDL	257 401	-
Bargaining council	7 152	5 494
Pension fund - municipal contributions	2 198 973	1 882 857
Travel and telephone allowances	1 051 770	908 880
Overtime payments	276 992	104 654
Acting allowances	174 455	281 054
Housing benefits and allowances	931 713	760 485
	32 554 509	27 343 283
Remuneration of Municipal Manager		
Annual Remuneration	545 226	390 997
Travel Allowance	227 179	167 502
Subsistence tax	549	-
Contributions to UIF, Medical and Pension Funds	136 306	89 055
Housing Allowance	-	8 689
Cellphone	18 000	13 500
Backpay	3 620	-
Leave Paid Out	-	160 385
	930 880	830 128
Remuneration of Chief Finance Officer		
Annual Remuneration	458 075	411 481
Travel Allowance	190 865	171 450
Contributions to UIF, Medical and Pension Funds	76 145	67 576
Housing Allowance	37 972	33 286
Cellphone	12 000	12 000
Backpay	-	16 080
Acting Allowance	3 042	59 177
Bonus Salary	-	57 888
Leave Paid Out	-	130 905
	778 099	959 843
Remuneration of Infrastructure and Engineering Manager		
Annual Remuneration	427 828	399 431
Travel Allowance	178 262	166 429
Contributions to UIF, Medical and Pension Funds	71 305	68 069
Housing Allowance	35 652	33 286
Cellphone	12 000	12 000
Backpay	2 841	16 080
	727 888	695 295

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
23. EMPLOYEE RELATED COSTS (continued)		
Remuneration of Corporate Services Manager		
Annual Remuneration	419 669	167 195
Travel Allowance	174 865	69 680
Contributions to UIF, Medical and Pension Funds	104 916	42 414
Cellphone	12 000	5 000
Backpay	2 787	-
	714 237	284 289
Remuneration of Social Services Manager		
Annual Remuneration	409 306	391 814
Travel Allowance	130 973	163 256
Contributions to UIF, Medical and Pension Funds	64 706	58 772
Housing Allowance	13 878	39 181
Cellphone	9 000	12 000
Backpay	2 787	15 774
Leave paid out	129 624	56 785
	760 274	737 582
Remuneration of Planning and Development Manager		
Annual Remuneration	419 669	198 742
Travel Allowance	174 865	82 825
Contributions to UIF, Medical and Pension Funds	104 916	46 522
Housing Allowance	-	3 155
Cellphone	12 000	5 000
Backpay	2 786	-
	714 236	336 244
24. REMUNERATION OF COUNCILLORS		
Mayor	625 917	597 326
Deputy mayor	500 734	477 860
Executive members	1 739 360	1 544 033
Speaker	500 734	457 775
Chief Whip	469 438	427 409
Councillors' basic allowance	4 816 300	3 935 919
Councillors' travel allowance	1 396 187	1 341 152
Councillors' pension fund contribution	766 928	572 157
Councillors' medical aid contribution	74 117	233 611
Councillors' cellphone allowances	1 015 140	990 592
	11 904 855	10 577 834

Ward committee expenses

Councillors' basic allowance includes ward committee expenses of R368 352 (2012 : R432 145).

In-kind-benefits:

The Mayor has a full time secretary and a driver.

The Deputy Mayor has a full time secretary (sharing the same secretary with the Mayor).

The Speaker has a full time secretary.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
25. DEBT IMPAIRMENT		
Debt impaired	-	1 429 460
Contributions to debt impairment provision	2 964 669	2 904 071
	2 964 669	4 333 531
Contributions to debt impairment relates to increase in bad debt provision as referred to in note 5.		
26. DEPRECIATION AND AMORTISATION		
Property, plant and equipment	31 756 423	30 586 334
Investment property	30 167	30 166
Intangible assets	162 396	84 404
	31 948 986	30 700 904
27. FINANCE COSTS		
Trade and other payables	2 586	-
Landfill site	187 212	124 407
Long service award	119 121	-
	308 919	124 407
28. GENERAL EXPENSES		
Administration cost	311 237	347 289
Audit and accounting fees	2 131 043	2 018 444
Bank charges	85 870	91 348
Cleaning	545 377	519 062
Consulting and professional fees	11 229 500	11 490 894
Electricity	1 747 251	1 908 434
Entertainment	2 312 255	2 649 448
Equipment hire	1 467 983	1 658 425
Fire brigade	1 638 826	2 273 016
Fuel and oil	725 644	606 499
Grant expenditure	-	376 043
IT expenses	658 440	2 342 704
Implementation of property rates	1 555 034	612 743
Insurance	229 287	497 708
Lease rental of office equipment	1 753 754	1 171 684
Leave provision	556 324	592 564
Motor vehicle expenses	735 468	524 852
Office equipment expenses	289 855	336 656
Other expenses	3 276 670	3 280 379
Printing and stationery	1 975 798	1 873 622
Promotions and sponsorships	672 736	243 724
Security (guarding of municipal property)	3 640 779	3 437 304
Skills development levy	124 594	325 289
Subscriptions and membership fees	421 057	211 021
Subsistence and travelling	3 245 266	3 599 334
Telephone and fax	1 851 968	1 592 059
Training	549 283	611 106
Transfer to Eskom	-	5 865 748
Transport and freight	888 186	1 298 514
Uniforms	137 397	81 786
Water	160 092	89 998
Workmens compensation	67 576	36 008
	44 984 550	52 563 705

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
29. OPERATING SURPLUS		
Operating surplus for the year is stated after accounting for the following:		
Operating lease charges		
Motor vehicles		
• Contractual amounts	1 325 159	763 325
Equipment		
• Contractual amounts	428 595	408 359
	1 753 754	1 171 684
Scrapping loss on other assets	(1 116 955)	(33 946)
Loss on sale of intangible assets	-	(3 307)
Amortisation on intangible assets	162 396	84 404
Depreciation on property, plant and equipment	31 756 423	30 586 334
Depreciation on investment property	30 167	30 166
Employee costs	44 459 364	37 921 117
30. REVENUE		
Service charges	1 336 651	1 148 332
Rental of facilities and equipment	877 685	593 033
Interest received (trading)	408 420	542 928
Public contributions and donations - container bins	-	449 710
Other revenue - (rollup)	1 413 450	1 089 824
Interest received - investment	2 295 509	2 666 967
Property rates	5 904 585	4 005 670
Government grants & subsidies	183 386 236	149 110 101
Motor vehicle licences	807 059	639 842
	196 429 595	160 246 407
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	1 336 651	1 148 332
Rental of facilities and equipment	877 685	593 033
Interest received (trading)	408 420	542 928
Public contributions and donations - container bins	-	449 710
Other revenue - (rollup)	1 413 450	1 089 824
Interest received - investment	2 295 509	2 666 967
	6 331 715	6 490 794
The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	5 904 585	4 005 670
Government grants & subsidies	183 386 236	149 110 101
Motor vehicle licences	807 059	639 842
	190 097 880	153 755 613

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
31. CASH GENERATED FROM OPERATIONS		
Surplus	66 327 128	29 894 563
Adjustments for:		
Depreciation and amortisation	31 948 986	30 700 904
Loss on scrapping of assets	1 116 955	37 253
Debt impairment	2 964 669	4 333 531
Movements in provisions	306 333	581 743
Adjustments to accumulated surplus	-	48 826 709
Transfer to human settlement grant	(8 379 139)	-
Other non-cash items	(1 136 297)	(900 796)
Changes in working capital:		
Receivables from exchange transactions	9 455	94 407
Other receivables from non-exchange transactions	(9 598 766)	(1 015 201)
Receivables from non-exchange transactions	(1 797 720)	(1 716 368)
Payables from exchange transactions	4 555 403	3 056 045
Vat	(588 408)	(97 983)
Unspent conditional grants and receipts	4 152 011	184 626
	89 880 610	113 979 433

32. CONTINGENCIES

Legal claims

Various claims submitted to the municipality are in the process of being resolved. The estimated liability of such claims, should the claimant be successful, is disclosed:

Legal disputes relate to:

- Failure to comply with the Development agreement is approximately R 2000
- Invading Municipal Land is approximately R 30 000

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
-----------------	------	------

33. COMMITMENTS

33.1 Authorised capital expenditure

Authorised and contracted

• Buildings	4 221 110	-
• Community	27 931 536	14 374 004
• Infrastructure	26 750 170	13 706 974
	58 902 816	28 080 978

Authorised but not contracted

• Community	2 100 000	3 405 900
• Infrastructure	-	43 500 000
	2 100 000	46 905 900

33.2 Operating leases - as lessee (expense)

At the reporting date the Municipality has outstanding commitments under operating leases which fall due as follows:

Minimum lease payments due

- within one year	1 131 714	55 477
- in second to fifth year inclusive	1 543 307	763 325
	2 675 021	818 802

Photocopy Machines(Konica Minolta) : The Municipality has entered into a lease agreement of the machines on the 1/12/2012. The monthly rental is payable at the end of each month over the period of 36 months.

Motor Vehicles (EQSTRA Fleet Management) : The Municipality has entered into a lease agreement for vehicles on the 23/08/2012. Contingent rent is based on every excess kilometre which does not exceed the total kilometres by more than 10% which is charged according to the excess kilometre schedule and additionally 2,5 times the excess kilometre charge rate as set out in the schedule is charged on the excess kilometres exceeding more than 10% of total kilometres.

33.3 Operating leases - as lessor (income)

Minimum lease payments due

- within one year	226 650	168 760
- in second to fifth year inclusive	390 604	348 570
	617 254	517 330

The municipality leased vacant land to a property developers whom has developed a shopping complex, Rhino Centre and Umzimkhulu Hotel. The lease agreement has a term of 50 years. The rental shall escalate by an amount equivalent to the the CPI index, rounded of to the nearest rand, which the escalation will be effective on the commencement date every year. The Rhino centre has 10% of the nett rental plus 2%payable to the municipality, which is calculated on the turnover of each site. Rentals will be recognised when the lessee is invoiced and will not be smooth over the period of the lease.

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
-----------------	------	------

34. RISK MANAGEMENT

34.1 Financial risk management

The Municipality has exposure to the following risks from its use of financial instruments:

Liquidity Risk
Interest Rate Risk
Credit Risk

This note presents information about the Municipality's exposure to each of the above risks and its objectives, policies and processes for measuring and managing risks. Further quantitative disclosures are included throughout these financial statements.

The Council and the Municipal Manager have overall responsibility for the establishment and oversight of the Municipality's risk management framework. The Municipality's risk management policies are established to identify and analyse the risks faced by the Municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Municipality's activities.

The Municipality through its training and management standards and procedures, aims to develop a disciplined and constructive environment in which all employees understand their roles and obligations

Financial Assets

Petty cash	28	0
Bank balances	5 328 645	2 503 006
Short-term deposits	37 221 285	35 387 729
Receivables from exchange transactions	24 673	34 128
Consumer debtors	4 149 229	5 316 178
Vat receivable	2 545 697	1 957 289
	49 269 557	45 198 330

Financial Liabilities

Payables from exchange transactions	12 159 982	8 061 920
Unspent conditional grants	10 856 624	6 704 612
	23 016 606	14 766 532

The Municipal Manager is of the opinion that the values reflected in the financial statements are a true reflection of fair values of both the financial assets and liabilities.

The fair value of consumer debtors is estimated to be the actual receipts expected adjusted for possibility of doubtful debt. Payables are settled within 30 days of receipt of invoice and therefore are reflected at the settlement amount.

34.2 Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

34.3 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. The Municipality's level of borrowing and consequently the debt servicing costs are closely monitored and controlled by the EXCO having regard to the prevailing and projected interest rates and the Municipality's capacity to service such debt from future earnings.

Balances exposed to the interest rate risk:

Bank balances	5 328 645	2 503 006
Short-term deposits	37 221 285	35 387 729
	42 549 930	37 890 735

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
-----------------	------	------

34. RISK MANAGEMENT (continued)

34.4 Credit risk

Credit risk is the risk that the counterparty to a financial instrument will default on its obligation to the Municipality, thereby causing financial loss to the Municipality. It is the Municipality's policy that all customers who wish to trade on credit terms are subject to payment of a deposit. In addition, receivable balances are monitored on an ongoing basis with the result that the Municipality's exposure to bad debts is not significant. A provision is made for doubtful debts. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument

Receivables from exchange transactions	24 673	34 128
Consumer debtors	4 149 229	5 316 178
Vat receivable	2 545 697	1 957 289
	6 719 599	7 307 595

35. COMPARATIVE FIGURES

Certain comparative figures have been restated (refer to note 36 for details).

36. PRIOR PERIOD ERRORS

During the financial year the municipality corrected a fundamental error.

Property, Plant and Equipment (Capital Work In Progress) were understated by R338 080 that was mistakenly expensed to CCTV camera projects in 2012 financial year end. This error has been corrected via Accumulated Surplus account in the 2013 financial year end.

The municipality has reclassified the community halls from Land and Building into Community Assets. The reclassification did not affect the total value of assets.

Payables from Exchange Transactions were overstated by R356 018 as a result of UIF that was due to Councillors and understated by R4 985 as a result of Operating Lease Liability that was not recognised on straight line basis in 2012 financial year end. This error has been corrected via Accumulated Surplus account in the 2013 financial year end.

An amount of R301 362 for Arts and Culture Grant has been reclassified from Other Revenue to Government Grants and Subsidies.

The amount transferred from the Revaluation Reserve to the Accumulated Surplus for the offsetting of depreciation had been the total depreciation amount instead of the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Land amounting to R25 174 000 was corrected and recognised in the asset register. Investment amounting to R24 447 840 was recognised in the asset register.

The correction of the error(s) results in adjustments as follows:

Accumulated surplus

Previously stated	-	210 569 628
Property, plant and equipment understated	-	338 080
Payables from exchange transactions	-	356 011
Operating lease creditor	-	(4 985)
Investment property previously understated	-	24 447 840
Land previously understated	-	25 174 000
Depreciation on Original Cost of Assets	-	(7 867 636)
Infrastructure overstated	-	(729 280)
Long service employee provision	-	(457 336)
	-	251 826 322

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
36. PRIOR PERIOD ERRORS (continued)		
Payables from exchange transactions		
Previously stated	-	7 955 610
UIF accrued expenses	-	(356 011)
Operating lease creditor understated	-	4 985
	-	7 604 584
Provisions		
Previously stated	-	1 279 621
Long service employee provision	-	457 336
	-	1 736 957
Property, plant and equipment		
Previously stated	-	286 800 852
Capital work in progress	-	338 080
Land understated	-	25 174 000
Infrastructure overstated	-	(729 280)
	-	311 583 652
Revaluation Reserve		
Previously stated	-	84 989 929
Depreciation on Original Cost of Assets	-	7 867 637
	-	92 857 566
Investment property		
Previously stated	-	4 466 656
Capital work in progress understated	-	24 447 840
	-	28 914 496
Other Revenue		
Previously stated	-	1 391 456
Reclassification of Arts and Culture Grant	-	(301 632)
	-	1 089 824
37. FRUITLESS AND WASTEFUL EXPENDITURE		
Opening balance	-	408 496
Current year amount	2 586	-
Condoned and written off by Council	-	(408 496)
	2 586	-
38. UNAUTHORISED EXPENDITURE		
Opening balance	33 232 914	-
Personnel costs - contracted employees	-	2 775 026
Depreciation due to revaluation of assets to comply with GRAP standards	26 699 912	26 524 326
General expenditure due to donations made to Eskom	-	3 933 562
Condoned and written off by Council	(33 232 914)	-
	26 699 912	33 232 914

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
39. IRREGULAR EXPENDITURE		
Opening balance	748 721	2 158 341
Add: Irregular Expenditure - current year	-	748 721
Condoned and written off by the Council	(748 721)	(2 158 341)
	-	748 721

40. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

Contributions to organised local government

Current year	406 000	192 231
Amount paid	(406 000)	(192 231)
	-	-

Audit fees

Current year	2 075 215	2 018 444
Amount paid	(2 075 215)	(2 018 444)
Amount unpaid	159 349	-
	159 349	-

PAYE and UIF

Current year payroll deductions	6 001 742	5 275 714
Amount paid - current year	(6 001 742)	(5 275 714)
	-	-

Pension and Medical Aid Deductions

Current year payroll deductions and council contributions	5 544 287	6 204 540
Amount paid - current year	(5 544 287)	(6 204 540)
	-	-

VAT

VAT receivable	2 545 697	1 957 289
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Councillors' arrear consumer accounts

There were no Councillors arrear accounts outstanding at 30 June 2013:

30 June 2012

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
F Nene	466	4 787	5 253

UMZIMKHULU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2013	2012
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41. DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the municipal manager may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the council and includes a note to the annual financial statements.

The Municipality purchased goods and services from Provincial Gazette amounting to R156 580 and (2012 : R456 588). Provincial Gazette is the single provider for the publication of Bylaws.

42. RECONCILIATION BETWEEN BUDGET AND STATEMENT OF FINANCIAL PERFORMANCE

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus per the statement of financial performance	66 327 128	29 894 563
Adjusted for:		
Increase in depreciation on revalued assets	26 699 912	24 711 939
Increase/(decrease) in general expenses	(1 930 400)	13 590 308
Decrease in government grant funding	2 087 628	1 600 872
Overestimation of other income	13 384 872	10 639 438
Decrease/(Increase) in property rates	1 030 672	1 688 121
Reduction of repairs and maintenance	-	(5 804 769)
Other variances	(552 585)	(1 232 219)
Net surplus per approved budget	107 047 227	75 088 253

Umzimkhulu Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

43. STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION

2013

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Budget for the year (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance											
Property rates	6 000 000	(6 000 000)	-	4 873 913		4 873 913	5 904 585		1 030 672	121 %	98 %
Service charges	300 000	(300 000)	-	800 000		800 000	1 336 651		536 651	167 %	446 %
Investment revenue	1 500 000	(1 500 000)	-	2 000 000		2 000 000	2 295 509		295 509	115 %	153 %
Transfers recognised - operational	91 316 757	(91 316 757)	-	91 033 757		91 033 757	90 709 660		(324 097)	100 %	99 %
Other own revenue	16 480 000	(16 480 000)	-	16 886 087		16 886 087	3 501 215		(13 384 872)	21 %	21 %
Total revenue (excluding capital transfers and contributions)	115 596 757	(115 596 757)	-	115 593 757		115 593 757	103 747 620		(11 846 137)	90 %	90 %
Employee costs	(31 327 815)	31 327 815	-	(34 768 008)	-	(34 768 008)	(32 554 509)	-	2 213 499	94 %	104 %
Remuneration of councillors	(10 983 254)	10 983 254	-	(10 983 254)	-	(10 983 254)	(11 904 855)	-	(921 601)	108 %	108 %
Debt impairment	-	-	-			-	(2 964 669)	(2 964 669)	(2 964 669)	- %	- %
Depreciation and asset impairment	(3 409 755)	3 409 755	-	(4 835 520)		(4 835 520)	(31 933 419)	(26 699 912)	(27 097 899)	660 %	937 %
Other expenditure	(69 875 933)	69 875 933	-	(51 702 462)	-	(51 702 462)	(50 739 616)	-	962 846	98 %	73 %
Total expenditure	(115 596 757)	115 596 757	-	(102 289 244)	-	(102 289 244)	(130 097 068)	(29 664 581)	(27 807 824)	127 %	113 %
Surplus/(Deficit)	-	-	-	13 304 513		13 304 513	(26 349 448)		(39 653 961)	(198)%	- %

Umzimkhulu Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

43. STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	56 218 240	(56 218 240)	-	78 441 240		78 441 240	92 676 576		14 235 336	118 %	165 %
Surplus (Deficit) after capital transfers and contributions	56 218 240	(56 218 240)	-	91 745 753		91 745 753	66 327 128		(25 418 625)	72 %	118 %
Surplus/(Deficit) for the year	56 218 240	(56 218 240)	-	91 745 753		91 745 753	66 327 128		(25 418 625)	72 %	118 %

Umzimkhulu Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

43. STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION (continued)

Capital expenditure and funds sources

Total capital expenditure	(56 218 240)	(85 788 852)	-	(107 027 226)	(107 027 226)	-	107 027 226	- %	- %
Sources of capital funds									
Transfers recognised - capital	56 218 240	78 441 240	-	78 441 240	78 441 240	-	(78 441 240)	- %	- %
Internally generated funds	-	7 347 612	-	28 585 986	28 585 986	-	(28 585 986)	- %	- %
Total sources of capital funds	56 218 240	85 788 852	-	107 027 226	107 027 226	-	(107 027 226)	- %	- %

Umzimkhulu Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

43. STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	84 919 761	(84 919 761)	-	84 919 761		84 919 761	89 880 610		4 960 849	106 %	106 %
Net cash from (used) investing	85 788 852	(85 788 852)	-	(85 788 852)		(85 788 852)	(85 221 387)		567 465	99 %	(99)%
Net increase/(decrease) in cash and cash equivalents	170 708 613	(170 708 613)	-	(869 091)		(869 091)	4 659 223		5 528 314	(536)%	3 %
Cash and cash equivalents at the beginning of the year	37 890 735	(37 890 735)	-	37 890 735		37 890 735	37 890 735		-	100 %	100 %
Cash and cash equivalents at year end	208 599 348	(208 599 348)	-	37 021 644		37 021 644	42 549 958		(5 528 314)	115 %	20 %